

Agreed minutes (25/10/06)

Notes of meeting on 5 September 2006 Amalgamation of categories of business Working Group

Location: ABI HQ at 51 Gresham Street, London EC2V 7HQ

Present: Craig Norris – HMRC
Richard Cook – HMRC
John Wright – HMRC
Mike Chadwick – Friends Provident
Peter Hayes – CIS
Debbie Kwan – HSBC
Kate Webster – ABI
Matthew Taylor – E&Y
Phil Lewis – KPMG
Carolyn Woodroffe – ABI
Leigh Francis - ABI

The ABI data for 2004 and 2005

- 1.1 HMRC thanked the ABI for their 2004 and 2005 data and confirmed that they had no further information request. HMRC said that the data showed the same pattern as their data that was mentioned at the last meeting, and that the 2005 data was especially useful and provided an opportunity to include it in the final report.
- 1.2 HMRC were surprised by the increase in PB losses in 2005 that were more than expected. The ABI had looked at this; research indicated that the majority of the increase was due to “reserve strengthening” that companies were required to do due to changes in mortality assumptions. The ABI did not know the amount specifically due to mortality strengthening, but thought that the amount was probably about £500m+. If this amount were excluded from the 2005 figures, this brought the figures more into line with the 2004 figures.
- 1.3 HMRC thought that the PHI data was interesting and useful. They thought that the PHI FII was lower than expected at less than 10m.
- 1.4 The PHI data identified “other significant differences between FSA profits and CA profits for PHI” separately from “DAC” (Deferred Acquisition Costs) and “differences between FSA reserves and CA accounts reserves for PHI”. However the ABI did not know what “such significant differences” included – it had just been part of the data provided by companies in the survey. It was not considered material.

6 into 1 option

- 2.1 Both the ABI and HMRC had concerns about this option which seemed much less likely to be adopted compared to the 5 into 1 option.

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- 2.2 The ABI would really need to have details of any transitional provisions in order to make an informed judgement. As an example the ABI would expect an upfront relief for DAC whereas it was likely that HMRC would advocate a spreading of relief.

In addition, the ABI had concerns over the treatment of PHI investment profits following a change in the basis of taxation, which would accelerate taxation of some gains (those held over on pre-2002 assets and real estates) and create a real risk of double taxation of others, where profits held in an Investment Reserve in the FSA Return had already been taxed in PHI on the CA basis, and would fall to be taxed again when the same investment profit was released to Form 40. Such issues, together with the tax treatment of UK dividend and Case VI v Case 1 assessment need to be addressed.

- 2.3 Likewise the ABI would like details of any transitional provisions in connection with an election to include PHI within GRB before they could express a view on this option.
- 2.4 There was general agreement that it would be best at this stage to “park” the 6 into 1 option to await the outcome of apportionment issues that were being discussed by another working group.
- 2.5 The ABI felt that the 6 into 1 option seemed to be more expensive to the Exchequer than the ABI had originally been thought.
- 2.6 Both the ABI and HMRC agreed that if the 6 into 1 option were to be considered at a later date, the option would be difficult for a small number of companies for whom PHI was a major part of their business, and who were already taxed on an actual Case 1 basis such that any potential move to Case VI would create a major problem for these companies. This issue also applied to reinsurers who took on PHI business. We also need to consider pure reinsurers where the proposed “6-1” legislation would apply a single Case 1 tax charge to the whole of the long term business.

5 into 1 option

- 3.1 HMRC and ABI both agreed that this option should be taken forward now, and that the next logical step would be to examine the draft clauses for the 5 into 1 option contained in the original Tcondoc (The Technical Consultative Document).
- 3.2 Towards this end another meeting would be arranged before the end of September (if possible) after the ABI and HMRC had examined the draft clauses.
- 3.3 The ABI and HMRC both appreciated that ancillary clauses that would be affected by adopting a 5 into 1 option.

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- 3.4 The ABI agreed to provide HMRC with a list of comments arising from an examination of the draft clauses or any other issues before the next meeting.
- 3.5 HMRC did not know the timetable for the working group to conclude its deliberations, but HMRC would find out this information from Jeremy Tyler before the next meeting.

Note: See attached “Issues” spreadsheet